

**REPORT TO THE
JOINT LEGISLATIVE AUDIT
AND REVIEW COMMISSION**

**FOR THE QUARTER
APRIL 1, 2002 TO JUNE 30, 2002**



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July 9, 2002

The Honorable Kevin G. Miller, Chairman
and
Members, Joint Legislative Audit and Review Commission
General Assembly Building
Capitol Square
Richmond, Virginia 23219

This transmits our quarterly summary of reports issued for the period April 1, 2002 through June 30, 2002.

The *Executive Summary* includes reports that may be of special interest to the members of the Commission. We have included a report in the summary for the sole purpose of bringing to your attention matters of significance. These summaries do not include all findings within a report or all reports with findings.

The *Summary of Reports Issued* lists all reports released during the quarter and shows reports that have audit findings.

We will be happy to provide you, at your request, any reports in their entirety. We welcome any comments concerning this report or its contents.

Sincerely,

Walter J. Kucharski
Auditor of Public Accounts

WJK:aom

EXECUTIVE SUMMARY

CHRISTOPHER NEWPORT UNIVERSITY

In July 1997, the University purchased an integrated administrative system from PeopleSoft and planned to implement that system to ensure the University's administrative information systems were Year 2000 compliant. The implementation process fell behind and senior management decided not to rely on PeopleSoft as its Year 2000 solution. Instead, management reallocated resources to modify the current administrative system for Year 2000 readiness. In August 2001, the University projected that continuing to implement PeopleSoft's student system would cost another \$2 million in consulting services alone. At that time, the University issued another request for proposal for a comprehensive administrative system. The University evaluated the proposals and discontinued the PeopleSoft system implementation.

The University proposal process resulted in the selection of Banner software and implementation consulting from Systems and Computer Technology (SCT). A key factor in the decision was the successful implementation of SCT Banner at similar universities within the Commonwealth. The University finalized its contract with SCT in December 2001 and expects project costs, excluding the University's normal operating budget costs, to be approximately \$3.2 million and financed through the Department of Treasury's Master Equipment Leasing Program.

The University has taken the following steps to address our prior report's recommendations and promote a successful implementation:

- Senior management meets weekly with the Project Manager to evaluate progress, ensure that project teams are on task, and take necessary administrative action related to the project.
- The President established the position of Special Assistant to the President for Information Technology and appointed the former Dean of the College of Science and Technology to the position. The Special Assistant spends approximately 95 percent of his time as the Project Manager.
- The Project Manager meets regularly with the technical and functional teams to ensure an open line of communication and a consistent flow of information.
- The University purchased SCT's Surefire Implementation Services, which include project management consulting, business process analyses, training, data conversion support, and database administration services.
- The Project Manager, in conjunction with SCT, developed a project plan with clearly defined roles and responsibilities and firm task completion and implementation dates.

The University plans for a 24-month project duration, during which it will implement Banner Student, Banner Financial Aid, Banner Finance, and Campus Pipeline. The University has made significant progress thus far; however, the project is still in its early stages. Senior management and the Project Manager must continue to actively monitor and participate in this project in order for it to succeed. We will continue to monitor the progress of the project through regular contact with the Project Manager.

THE COLLEGE OF WILLIAM AND MARY

In February 1999, the College issued a Request for Proposal (RFP) for the implementation of an integrated information system. This system would replace three core systems: Finance, Human Resources, and Student Systems, and numerous subsystems. In December 1999, the College awarded Systems, Applications, and Products (SAP) the contract for the system and Align Consulting, Inc. an implementation services contract. In the Spring of 2000, the College began the accelerated development and implementation of its Enterprise Resource Planning (ERP) System (SAP R/3), called Project ARIA. The College identified resource requirements of \$9.5 million for purchasing software, hardware, and consulting costs.

In August 2000, the College appointed the current project manager to lead Project ARIA. This project manager identified many of the problems noted in our prior year report, and recommended a slower, more methodical rate of implementation and the termination of Align Consulting due to funding limitations. More importantly, he recognized that the Project would not succeed unless the College re-assessed SAP Finance functionality and addressed immediate problems with Student Systems. In November 2000, the College suspended the implementation of SAP.

In July 2001, based on its major re-assessment of SAP and available alternatives, the College's Project Management Team (PMT) recommended procuring and implementing Systems and Computer Technology's (SCT) Banner suite of products for higher education. The PMT estimated that implementing all modules of the SCT Banner product would be significantly less expensive than implementing SAP Finance alone. The College finalized a contract to obtain SCT Banner in late December 2001.

The College will implement the SCT Banner Student Information System (SIS) between January 2002 and September 2003 with funds already in place. Contingent upon additional support from the Commonwealth, the College will implement the Banner Finance and Human Resource systems in the subsequent two-year period. Should the College not obtain additional funding during the current biennium, the College plans to implement Banner's SIS on a client server platform in conjunction with its current SCT Plus Finance and Human Resource System on their mainframe. College Management considers this approach an interim solution only. Obtaining additional funding to achieve a single integrated ERP system remains a priority of the College's Board and senior management.

In addition to the above changes, the College has taken the following steps to address our prior year findings.

- Identified and committed funding sources of approximately \$4.6 million to support the full implementation of Banner SIS.
- Included internal, external, and incremental costs in the budgeting process.
- Adopted a more reasonable implementation methodology spanning eighteen months, including sufficient time for planning.
- Reorganized project management at all levels and taken steps to provide additional stability in project management.
- Developed a thorough project management plan addressing the above issues and listing milestones with firm target dates.

To date, the College has completed its business process analyses, installed portions of SCT Banner SIS in a test environment, and begun technical training. The College has also taken measures to ensure that adequate staff and funding resources are available to complete this project successfully.

DEPARTMENT OF CORRECTIONS AND VIRGINIA PAROLE BOARD

PRISON PRIVATIZATION

Corrections contracted with a private corporation, Corrections Corporation of American (CCA), for the construction and operation of a medium-security prison with 1,536 general population beds, and 42 segregation beds. The facility, located in Lawrenceville, opened in March 1998. The contract requires Corrections to maintain the facility at a minimum capacity of 1,425 inmates. The average daily population for fiscal year 2001 was 1,571. The facility houses only males inmates and does not have a major medical facility.

The contract establishes a per diem rate of \$35.20 for the first 1,425 inmates and \$13.97 for each inmate above 1,425 during the first year, which began on March 23, 1998. The contract adjusts the per diem rates on March 23 of each of the four subsequent years with rates ranging from \$31.08 to \$33.96 for the first 1,425 inmates and \$14.39 to \$15.72 for each inmate above 1,425. The private prison's per diem rate covers all operating costs of the facility with the exception of the transportation costs of transferring the inmates in and out of the facility, depreciation expense, and debt service costs. The per diem costs also include administration costs from CCA headquarters as well as the facility.

To ensure CCA meets all contract requirements, Corrections has a full-time Liaison Officer on-site. The Liaison Officer monitors daily activities and coordinates issues and problems between Corrections and the prison staff. The Liaison Officer reports directly to the Regional Director for Corrections' Central Region, who provides additional oversight, much as he does for the Corrections' operated facilities in the Central Region. The Liaison Officer also works closely with Corrections' Private Prison Administrator, who handles contractual issues and oversight at Corrections' central office.

Originally, the Department of Correctional Education (DCE) was to provide vocational training and academic education, which are functions and responsibilities of DCE. DCE decided to privatize the academic education and vocational training within Lawrenceville Correctional Center, and amended the original contract for CCA to begin providing educational services January 1, 1999. CCA established inmate work, vocational, and educational programs. DCE monitors the educational program requirements.

CCA obtained American Corrections Association (ACA) accreditation during November 1999. ACA is a national private non-profit organization that establishes standards for correctional institutions. Most Corrections' facilities do not have ACA accreditation because they cannot meet all of the accreditation standards. Specifically, Corrections' older facilities cannot meet the construction requirements. However, Corrections has its own institutional standards for its facilities. CCA must also meet Corrections' institutional standards. Corrections performed an institutional compliance audit in March 1999 for Lawrenceville. Due to 63 deficiencies noted during the compliance audit, Corrections placed CCA on probationary certification. Based on the results of a follow-up audit in August 2000, Lawrenceville received an unconditional certification.

The Appropriations Act for the 2000-2002 biennium directed Corrections to evaluate the long-term cost and effectiveness of the privately-operated facility. The evaluation was to include the facility's compliance with state and national professional standards, the effectiveness of education and treatment

programs, the overall security of the facility, the conditions under which prisoners are incarcerated, the maintenance of the physical facility, and the cost effectiveness of the facility's operating procedures. The Appropriations Act required completion of the report to the Secretary of Public Safety by September 30, 2001. Corrections did not perform this evaluation and this issue is included in the section entitled "Internal Control and Compliance Findings and Recommendations."

Follow Appropriation Act Requirements

Corrections did not follow an Appropriation Act requirement directing them to evaluate and report on the long-term cost and effectiveness of their privately-operated facility. Chapters 935 and 1073 of the Appropriations Act required an evaluation of the Lawrenceville Correctional Center. The evaluation was to include the facility's compliance with state and national professional standards, the effectiveness of education and treatment programs, the overall security of the facility, the conditions under which prisoners are incarcerated, the maintenance of the physical facility, and the cost effectiveness of the facility's operating procedures. In addition, as part of the evaluation, Corrections was required to assess whether the private facility can also reduce their operating cost without compromising security and public safety. The Appropriations Act stipulated that Corrections submit the report based on their evaluation to the Secretary of Public Safety by September 30, 2001. Corrections did not perform the evaluation or submit the required report. Corrections management should ensure they meet the requirement enacted by the General Assembly in the Appropriations Acts.

DEPARTMENT OF FIRE PROGRAMS

STATUS OF CORRECTIVE ACTIONS

The Department of Fire Programs (the Department) continues to improve its internal controls and address matters raised in our prior reports. Our previous audit noted the Department and the Virginia Fire Services Board should periodically review the minimum amounts of Aid to Localities distributed to cities, towns, and counties and recommend any increases to these amounts. The Virginia Fire Service Board took action in August 2000, independent of the legislature, to increase the fiscal year 2002 minimum aid to localities. The minimum funding increased from \$10,000 to \$12,000 for counties and independent cities and from \$4,000 to \$6,000 for incorporated towns.

Our prior year's audit also noted the Department lacked formal policies and procedures covering system security, system backup and recovery, and document retention. Further, they had not prepared a risk analysis that identifies mission critical functions. The Department of Information Technology is managing the requirements, design, development, testing, and implementation of the new Fire Training System (FTS). The project will have a network database with the regional offices having full access and capabilities. Upon completion of the new system in June 2002, the Department will work with the Department of Information Technology to formalize policies and practices for security.

DEPARTMENT OF HEALTH PROFESSIONS

Plans for New Licensing System

In October 1997, the Department entered into a sole source contract with Systems Automation Corporation for \$1.3 million. The purpose of the contract was to customize Systems Automation's off-the-shelf health professional licensing system. Although the Department indicated in its request that Systems Automation's product satisfied all of the Department's needs, the Department did not purchase the reporting and financial modules of this system. Therefore, Systems Automation built, from scratch, a new customized financial module. In doing so, the Department communicated its operational needs to Systems Automation.

It is unclear whether Systems Automation did not provide the services agreed upon or if the Department did not communicate its needs effectively. However, since the system became operational in 1999, the Department has encountered numerous problems processing transactions involving the following activities:

- Applying a late fee to a practitioners account
- Refunding an overpayment to a practitioner from their respective account
- Changing a practitioner's license category (inactive vs. active)
- Processing a single check payment for multiple practitioners
- Processing a single check payment for a variety of licensing fees

To resolve these problems, the department paid for several enhancements to the system resulting in a total cost of \$2.1 million. Systems Automation has offered to upgrade the system by migrating its current database to the off-the-shelf upgrade; however, the cost of the upgrade is unknown.

The Department has decided to look at other alternatives besides the upgrade offered by Systems Automation and is now preparing a Request for Proposal (RFP) to replace the current licensing system. The Department plans to issue the RFP in early April 2002 for a web-based system.

Properly Evaluate Alternatives to the Existing System

The Department has not performed a formal analysis on the cost effectiveness of upgrading the current system versus purchasing a new system. Without a cost analysis, the Department cannot ensure that they are responsibly using the funds of the Commonwealth.

In addition, the Department has not assigned a project manager. A part-time employee, not designated as the project manager, is currently working on gathering information for the RFP from the various cost center managers. Without a designated project manager, the Department runs a risk of not meeting its project objectives and timelines. A project manager also provides a focal point for decision-making and problem resolution on projects of this size.

Also, the Department has not developed a funding plan to pay for the new system. Although the Department has stated that the money is available in the budget, a detailed plan outlining the funding shifts and corresponding changes in the other service areas is necessary to verify that funding will be available and to ensure that the Department will continue essential operations.

Recommendations

The Department should perform a cost analysis to determine if procuring a new system has the most economical benefit to the agency and the Commonwealth. If so, the Department should determine if funding is available and document a funding plan. The Department should also designate a project manager to ensure the project meets its objectives and there is someone to coordinate the implementation with the vendor. Lastly, the Department must determine the needs of the agency and effectively communicate those needs to the vendor to prevent the current situation from reoccurring.

DEPARTMENT OF JUVENILE JUSTICE

Overall, there are several recurring issues that contributed to the internal control findings discussed in this report. The Department needs to establish and enforce appropriate operating policies and procedures. Most policies are and have been in draft form for at least two years. The lack of approved policies combined with inadequate coordination and communication between the central office, court service units, and correctional centers has resulted in several internal control weaknesses and contributed to inefficient operations. We discussed the individual audit findings in the section entitled “Internal Control Findings and Recommendations.”

VIRGINIA COMMONWEALTH UNIVERSITY

Prioritize Timely and Accurate Financial Reporting

The University did not complete the financial information necessary to attest to the annual financial statements until seven months after year-end. University management has not made the timely reporting of its annual financial information a priority. While this decision does not affect internal interim financial reports, this year’s delay is unusual. Further, much of the delay arises from University financial personnel not receiving accurate, complete and timely information from the Virginia Commonwealth University Health System Authority and some of the related foundations.

In addition, when University financial personnel did receive the information, material errors were identified and they did not correct them. Staff stated that they could not change the information, since the entity had made the audit reports available to the public. These types of errors clearly highlight the need to provide University financial personnel the authority necessary to coordinate and resolve these matters in a more timely manner.

The University needs to make it a priority to complete accurate and comprehensive financial statements by November 1 of each year. As part of this deadline, the University wants these statements to undergo audit and have it completed by December, which will require the staff to gather and accumulate financial information that should result in little or no changes during the audit process. To accomplish this, University management must address the timely, accurate, and complete reporting of all the foundations and the Virginia Commonwealth University Health System Authority. Without these entities providing the information that the University financial staff needs, they cannot achieve the timely and accurate completion of the University’s annual financial report.

SUMMARY OF REPORTS ISSUED

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The following reports on audit were released by this Office during the period April 1, 2002 through June 30, 2002. Those reports which included findings in the area of internal controls or compliance are indicated by an (*) asterisk.

State Agencies and Institutions

Judicial Branch

Virginia Board of Bar Examiners for the period July 1, 2000 to December 31, 2001
The Virginia State Bar for the year ended June 30, 2001

Executive Departments

Executive Offices

Selected Agencies for the year ended June 30, 2001*

Administration

Commonwealth's Attorneys' Services Council for the period July 1, 1999 through December 31, 2001*
Compensation Board for the period January 1, 2000 through December 31, 2001
Department of Human Resource Management for the year ended June 30, 2001
Department of Veterans' Affairs for the year ended June 30, 2001

Commerce and Trade

Department of Business Assistance for the year ended June 30, 2001
Department of Housing and Community Development for the year ended June 30, 2001
Department of Labor and Industry for the period July 1, 2000 through December 31, 2001
Department of Mines, Minerals, and Energy for the years ended June 30, 2001 and 2000
Department of Professional and Occupational Regulation for the year ended June 30, 2001
State Milk Commission for the year ended June 30, 2001
Virginia Department of Agriculture and Consumer Services for the year ended June 30, 2001*
Virginia Small Business Financing Authority for the year ended June 30, 2001

Education

The Library of Virginia for period January 1, 2000 through June 30, 2001*

Colleges and Universities

The College of William and Mary for the year ended June 30, 2001*

The College of William and Mary, Intercollegiate Athletic Programs for the year ended June 30, 2001

Longwood College for the year ended June 30, 2001*

Longwood College, Intercollegiate Athletic Programs for the year ended June 30, 2001

Northern Virginia Community College as of June 30, 2001

Old Dominion University for the year ended June 30, 2001*

Old Dominion University, Intercollegiate Athletic Programs for the year ended June 30, 2001

Virginia Commonwealth University for the year ended June 30, 2001*

Virginia State University for the year ended June 30, 2001*

Virginia State University, Intercollegiate Athletic Programs for the year ended June 30, 2001

Health and Human Resources

Agencies Serving Virginians with Disabilities for the year ended June 30, 2001*

Department of Mental Health, Mental Retardation, and Substance Abuse Services
for the year ended June 30, 2001*

Natural Resources

Chesapeake Bay Local Assistance Department for the years ended June 30, 2000 and June 30, 2001

Department of Conservation and Recreation for the year ended June 30, 2001*

Department of Environmental Quality for the year ended June 30, 2001

Department of Game and Inland Fisheries for the year ended June 30, 2001*

Virginia Marine Resources Commission for the year ended June 30, 2001

Public Safety

Department of Corrections and Virginia Parole Board for the year ended June 30, 2001*

Department of Fire Programs for the period January 1, 2001 through December 31, 2001*

Department of Juvenile Justice for the year ended June 30, 2001*

Department of Military Affairs for the period ended June 30, 2001

Independent Agencies

Virginia Workers' Compensation Commission for the period January 1, 2000 through June 30, 2001*

Special Reports

Commonwealth's Electronic Procurement System eVA dated May 31, 2002*
Report to the Joint Legislative Audit and Review Commission for the quarter January 1, 2002 through March 31, 2002

Clerks of the Circuit Courts

Cities:

City of Alexandria for the period January 1, 2001 through December 31, 2001
City of Newport News for the period January 1, 2001 through March 31, 2002
City of Petersburg for the period January 1, 2001 through December 31, 2001*
City of Richmond – John Marshall for the period January 1, 2001 through December 31, 2001
City of Richmond – Manchester for the period January 1, 2001 through December 31, 2001
City of Staunton for the period January 1, 2001 through December 31, 2001

Counties:

County of August for the period January 1, 2001 through December 31, 2001
County of Bath for the period January 1, 2001 through December 31, 2001
County of Bedford for the period April 1, 2001 through March 31, 2002
County of Bland for the period January 1, 2001 through December 31, 2001
County of Brunswick for the period January 1, 2001 through December 31, 2001
County of Buchanan for the period January 1, 2001 through December 31, 2001
County of Buckingham for the period April 1, 2001 through March 31, 2002
County of Campbell for the period April 1, 2001 through March 31, 2002
County of Caroline for the period April 1, 2001 through March 31, 2002
County of Carroll for the period April 1, 2001 through March 31, 2002
County of Charles City for the period January 1, 2001 through December 31, 2001*
County of Chesterfield for the period January 1, 2001 through December 31, 2001
County of Clarke for the period October 1, 2000 through December 31, 2001*
County of Cumberland for the period January 1, 2001 through December 31, 2001
County of Dickenson for the period January 1, 2001 through December 31, 2001
County of Fauquier for the period January 1, 2001 through December 31, 2001
County of Gloucester for the period January 1, 2001 through December 31, 2001
County of Greene for the period October 1, 2000 through December 31, 2001*

Clerks of the Circuit Courts

Counties: (cont.)

County of Highland for the period January 1, 2001 through December 31, 2001*
County of Isle of Wight for the period January 1, 2001 through December 31, 2001
County of King George for the period January 1, 2001 through December 31, 2001*
County of Lee for the period January 1, 2001 through December 31, 2001
County of Mathews for the period January 1, 2001 through December 31, 2001
County of Montgomery for the period January 1, 2001 through December 31, 2001*
County of Nelson for the period January 1, 2001 through December 31, 2001
County of Northumberland for the period April 1, 2001 through March 31, 2002
County of Orange for the period January 1, 2001 through December 31, 2001
County of Rockbridge for the period January 1, 2001 through December 31, 2001
County of Rockingham for the period January 1, 2001 through December 31, 2001*
County of Russell for the period January 1, 2001 through December 31, 2001
County of Southampton for the period April 1, 2001 through March 31, 2002
County of Stafford for the period ending January 11, 2002
County of Surry for the period January 1, 2001 through December 31, 2001
County of Wythe for the period July 1, 2001 through December 31, 2001